

PGDM / PGDM (IB), 2020-22
CORPORATE BANKING AND CREDIT APPRAISAL
DM-412 / IB-412
Trimester –IV, End-Term Examination: September 2021

Time allowed: 2 Hrs 30 Min

Max Marks: 50

Instructions: Students are required to write Roll No on every page of the Answer Sheet and question paper. All other instructions on the question paper/notifications should be followed meticulously.

Sections	No. of Questions to attempt	Marks	Marks
A	Minimum 3 Questions with internal choices and CILO (Course Intended Learning Outcome) covered	10 Marks each*3	30
B	Compulsory Case Study	20 Marks	20
		Total Marks	50

SECTION A:

Write to the point and relevant while answering questions. Maximum word limit for full question with all its parts is 300 words.

Q. 1. A. [CILO-1]

- i) Define a Demand bill and a Usance bill. Which way banks give advance against DP and DA Bills? Which one is safer out of DP or DA bill for the bank to give advance?
- ii) Define and give 4 examples of a Credit Substitute. Under what circumstances banks go for credit substitutes?
- iii) What security and what charge on the security is available with a bank in case of documentary DP bill of exchange purchased and DA bill discounted by the bank?
- iv) Which charge of the bank on an assets of the company for a loan needs to be registered with Registrar of Assurances as well as ROC?

(2.5*4)

OR**Q. 1. B [CILO-1]**

- i) Describe the term "Credit Exposure" for Banks as defined by RBI?
- ii) Describe and write examples of four Credit Risk Mitigants.

- iii) Elaborate the current exposure norms for Individual borrowers, Group borrowers and exposure to Capital market?
- iv) What are the Asset Classification norms in Indian banks? What is the purpose of asset classification? (2.5*4)

Q. 2. A [CILO-2]

- i) Define NPA for a Term Loan and Cash Credit line. What is the impact of NPAs on Banks and the economy?
- ii) Define Risk Sensitive Assets and Liabilities. Give an example how they are used in Interest Rate Risk Management in banks?
- iii) What are the advantages of Consortium banking over the multiple banking arrangements for the corporate customer as well as the member banks?
- iv) A borrower has approached the bank for following credit facilities:
 - a) They would need credit line for bidding for contracts with some monopoly suppliers of local raw materials in the first year, so that they do not block the huge amount for security deposit of Rs. 50 lakh demanded by the supplier company.
 - b) They would require Rs. 90 lakh for financing their stocks of raw materials, semi-finished and finished foods and receivables from highly reputed buyers.

Presuming that the proposal is acceptable to the bank, you are required to write the related information as per table below for each of the facility applied at 25% margin and collateral security of plot of land worth Rs.150 lakh.

Sr.	Type of need	Nature of limit you suggest	Value of Assets to be financed	Margin % Stipulated	Amount of Limit proposed	Type of asset as security	Type of Charge security asset

(2.5*4)

OR**Q. 2. B [CILO -2]**

- i) a) Write only the names of 6 most important components of a credit policy of a bank.
- b) How Consortium lending is different from the Syndication arrangement?
- c) Write the names and objectives of two most common Non fund based credit facilities the banks grant to corporates. (2+2+1)

ii) A borrower has approached the bank for following credit facilities:

- a) They will require to purchase imported machinery for Rs. 50 lakh for which the payment to be made immediately on supply of machinery.
- b) They will require to purchase indigenous machinery (from India) for Rs.40 lakh for which the supplier will accept payment in 6 half yearly installments without any interest provided the bank takes the responsibility of payment on due dates.
- c) They will require import of some raw material this year for USD 100,000 for which their supplier has insisted on some commitment for payment by their bank to the supplier immediately on submission of bills of exchange with shipping documents of title to goods and any other documents desired by the buyer.
- d) They would need credit line for bidding for contracts with some monopoly suppliers of local raw materials in the first year, so that they do not block the security deposit amount of Rs. 40 lakh demanded by the supplier company.
- e) They would require Rs. 80 lakhs for financing their stocks of raw materials, semi-finished and finished foods and receivables from highly reputed buyers.

Presuming that the proposal is acceptable to the bank, you are required to write the related information as per table below for each of the facility applied at 25% margin and collateral security of plot of land worth Rs.150 lakhs.

Sr.	Type of need	Nature of limit you suggest	Value of Assets to be financed	Margin % Stipulated	Amount of Limit proposed	Type of asset as security	Type of Charge on security asset

(1x5)

Q. 3. A [CILO -3]

- i) The following projections for 2021-22, are provided by the Progressive Products Co. Ltd.

(Amount Rs. 000)

Annual sales	Rs18,00,000
Raw material purchases:	Rs.7,20,000
Opening stock of raw materials	Rs.1,10,000
Anticipated closing stock of raw materials	Rs. 1,20,000
Wages and other Mfg expenses	Rs 2,00,000

Opening stock of WIP	Rs. 60,000
Anticipated closing stock of WIP	Rs. 70,000
Opening stock of FG	Rs. 1,40,000
Anticipated closing stock of FG	Rs. 1,60,000

Inventory norms:

Raw material: 1 month, WIP: 15 days, Finished goods: 1 month.

Credit allowed to buyers: 2 months (80% sales are on credit)

Credit allowed by suppliers: 1 month on its purchases (70% purchases are on credit)

Work out working capital required by the company based on Net Working capital cycle method.

- ii) a) The annual turnover of the company Startup Ltd. is projected to be Rs.30 crore in the coming year. Compute working capital need of the company based on Turnover method. How much will be the margin and the limit sanctioned by the bank in this case?
- b) If the above company has their own surplus funds for working capital as a margin money to the tune of Rs.3.0 crore, then what amount of limit will be sanctioned?
- c) It is observed by the credit officer that the operating cycle of the company is only 2 months and requirement of working capital is Rs 4.5 crore as per operating cycle method. How much limit the credit officer will sanction in this situation?

(5+5)

OR**Q. 3. B [CILO -3]**

National Industries Limited. (NIL) has been enjoying various credit limits for Rs 800 lakhs satisfactorily with National Commercial Bank. They have applied for a loan for the Project Cost of the new additional plan and equipment for capacity expansion Rs.150 lakh and margin stipulated by the bank for financing is 30% of cost of project.

Highlights of limited Projected Financials are given hereunder: (Amt. Rs. lakhs)

Particulars	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
Turnover	1547.20	2220.0	2700.00	3100.0	3600.0	4200.0	4700.00
Surplus (PAT)	26.36	60.54	155.00	181.00	153.97	154.77	152.36
Depreciation		24.96	39.96	39.96	54.96	54.96	54.96
Interest		13.50	19.60	23.28	22.20	20.28	12.36
Installment		26.67	40.00	40.00	40.00	28.33	13.33

Dividend is proposed to be paid till 2026-27 as under:

2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
NIL	NIL	NIL	NIL	20%	20%	30%

The paid up capital of the company is Rs 300 lakh with face value of share at Rs.10.

Term Loan installments projected as payable include re-payment towards existing TL also.

Required:

- 1) Work out the following information for the past, current and coming years,
 - a) % Growth in turnover
 - b) Profitability growth
 - c) Interest Cover
 - d) Debt service coverage
 - e) Cash flows and Moratorium period based on cash flows of the company
- 2) Analyze the above limited information provided in this case and write your decision to approve or to reject the term loan application.

(2+4+4)

SECTION B: 20 marks

Q. 4. Write to the point and relevant while answering questions. Maximum word limit for full question with all its parts is 600 words.

A CASE OF M/S B & B PVT LTD

M/s B & B Pvt Ltd is a manufacturer of sheet metal components enjoying Fund Based Working Capital limit of Rs.800 lakh.

Other information is provided here-under:

- Primary -Security - Stock and Book Debts and Collateral – Equitable Mortgage of Factory Land and Building Market Value Rs.1200 lakhs and Distress Value Rs.960 lakhs
- Net worth of the Directors was Rs.800 lakhs as on 31.03.2021
- Sales figures of the company is Rs.5000 lakhs for the year 2020-21 and Rs6000 lakhs projected for the year 2021-22
- Net Profit of the company is Rs.330 lakhs for the year 2020-21 and Rs.396 lakhs projected for the year 2021-22

Balance sheet of M/S B & B Pvt Ltd					
Capital and Liabilities			Assets		
	2020-21	2021-22		2020-21	2021-22
Debentures	300	300	Advances To Suppliers	100	260
Reserves and surplus	350	680	Plant and Machinery	760	1160
Expenses Payable	110	160	Prepaid Expenses	70	120
Loan From directors	300	330	Receivables	905	1280
Creditors for goods	610	720	Pre-operative Expenses	25	40
Cash Credit balance	500	800	Land And Building	750	880
Term Loans	400	760	Stocks	705	940
Advances From Customers	125	150	Patents and trade marks	40	60
Capital	750	960	Cash In Hand	85	120
Provisions for dividends	145	200	Investment In Shares of the subsidiary company	150	200
Total	3590	5060	Total	3590	5060

Required:

- Calculate MPBF as per 2nd Method of Lending for the year 2021-22.
- Calculate following financial ratios for both the years.

Sr. No.	Name Of The Ratio	Formula	31/03/2021	31.03.2022
1	Current Ratio			
2	Total Debt Equity Ratio			
3	Net Profit Ratio %			
4	Debtors Turnover Ratio			
5	Creditors Turnover Ratio			
6	Return On Net Worth Ratio %			
7	Assets Turnover Ratio			

- Write your analysis on the financial position of the company based on above ratios. (6+7+7)